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E.O. 12958: N/A
TAGS: ECON EFIN EINV KMCA PGOV PREL PA
SUBJECT: PARAGUAY: SENATE PASSES PUBLIC BANKING LAW
OPENING WAY FOR FOURTH IMF REVIEW

¶1. In a special session on March 8, the Paraguayan Senate passed the public banking law establishing a single second tier public bank, complying with a performance criterion and opening the way for the fourth review of Paraguay's International Monetary Fund program. The Senate debated for about seven hours, but did not make major changes to the bill. While the Senate struck an article that applied the same prudential norms applicable to private banks to the public bank, it included language giving the executive branch the power to draft implementing regulations. The Minister of Finance told Econchief that he was pleased with the outcome, and that the Ministry would draft implementing regulations to apply appropriate prudential norms to the bank.

¶2. The resident IMF representative told Econchief that the version passed by the Senate had been reviewed by the IMF's Monetary and Financial Systems Department (MFD), which deemed the bill in compliance with the IMF program. He also noted that not all public banks are subject to the same prudential norms as private banks.

¶3. The Ministry of Finance lobbied hard for the law's passage, and Diego Abente, a former Member of Congress and Political Advisor to the Finance Minister, believes that the law will have an easier time in the Chamber of Deputies, where it is expected to be considered in early April. Some private observers disagree, though, and believe the law may face some attempts to legislate easy access to credit for small farmers and businesses.

¶4. The Second Tier bank, known as the Financial Agency for Development (AFD by its Spanish initials) would become the sole public wholesale bank, channeling longer-term funds from the IFIs and perhaps from domestic entities such as the social security fund to both public and private retail banks. The AFD would subsume three small entities that currently act as wholesale lenders for the provision of financing for small businesses and rural farmers.

¶5. The second part of the public banking reform process will be the consideration by the Senate of the draft law consolidating the seven public retail (first tier) banks into a single entity. The Senate is now expected to consider the first tier law on April 5. The existing retail public banks are dominated by the bankrupt Banco National de Fomento (BNF), which has non-performing loans (NPLs) on the order of 55 percent of total loans. The other six entities are relatively small credit agencies and do not act as banks. The first tier reform is expected to be much more contentious, as any perceived tightening of credit to small farmers and businesses will likely face resistance.

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